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SUBJECT: Argentina: Deloitte on GoA and Economic Prospects

Summary

¶1. (SBU) Argentine executives of Big Four auditor Deloitte called the Kirchner administration politically canny but out of touch with the Argentina's economic reality, neither seeking nor listening to advice from the business community. While domestic consumption and production is falling fast, Deloitte felt Argentina will be well-served in the medium term by its agricultural commodity-based export economy. If the GoA changes tack and begins to work constructively with agricultural leaders, the sector is likely to respond quickly and positively to appropriate incentives. Deloitte has been consulted by Libya- and Dubai-based businesses interested in long-term contracts to buy food from Argentina and in buying local food producing/processing companies. However, no US companies had called in months about doing business in Argentina. Deloitte called Argentina's financial system healthy and liquid. End Summary.

¶2. (SBU) On March 9, Deloitte Argentina CEO Carlos Haehnel, Regional Managing Partner Miguel Maxwell, and Audit Partner Alejandro Adem hosted Ambassador, EconCouns, and FCS Officer to lunch to review the impact of the global economic crisis on Deloitte corporate and bank clients in Argentina. Deloitte Argentina has responsibility for the firms Southern Cone regional offices and, as one of the "Big Four" accounting/audit firms, has a broad range of U.S. and other foreign multinationals operating in Argentina as audit or consulting clients.

Deloitte: Administration Out of Touch (But Canny)

¶3. (SBU) Haehnel called the GOA "autistic," neither seeking nor listening to advice from the business community, and "out of touch" with the Argentina's economic reality. That said, he called the Kirchners "canny" and, as their purposefully drawn out discussions with agricultural sector groups over subsidies and export taxes demonstrate, not prone to committing political suicide. He argued that, in the run-up to 2009 mid-term elections, the Kirchners political agenda will inevitably "re-align" in response to pressures building within the Peronist party, including from the entente reached by Peronist dissident leaders Felipe Sola, ex-Governor of Buenos Aires province, and Deputy for Buenos Aires Province Francisco de Narvaez.

Argentina's Economy: Decline Likely, But Some Strengths

¶4. (SBU) While Argentina was somewhat insulated from the initial phase of the international financial crisis due to the isolation of its financial sector, Haehnel said, domestic consumption and production are falling fast and the economic bottom is not yet in

sight. Nevertheless, he called the country's financial system healthy and liquid. In the medium term, Argentina will be well served by its agricultural commodity-based export economy, with commodity prices down from stellar July 2008 peaks but still at levels which allow profits for Argentina's efficient agricultural sector. "People have to eat, and Argentina produces what the world needs," he concluded.

¶ 15. (SBU) To minimize the domestic impact of the global economic downturn, Haenel said, the GoA needs to take action to work with the agricultural sector and change their ingrained expectations of confrontation. The sector, he said, is likely to respond quickly and positively to appropriate incentives from the GoA. Deloitte has been consulted by Libya- and Dubai-based businesses interested in establishing long-term contracts to buy food from Argentina and in buying local food-producing/processing companies; but Deloitte has received no inquiries from US companies this year about doing new business in Argentina.

¶ 16. (SBU) Haehnel said that, in an earlier meeting with former Spanish PM Jose Maria Aznar, Aznar told him that ex-President Bush had called him during the 2001 Argentine crisis to inquire about Spain's perception of the crisis and suggesting that the two work together to support Argentina in the IMF. Haenel also offered that, despite the generalized Argentine perception of a hard-line U.S. position towards Argentina, those involved at the time, including Deloitte, knew it was the Bush administration that supported Argentina's post-crisis (but pre-Kirchner) reconciliation with the IMF at a time when IMF's Anne Krueger wanted to use Argentina as an cautionary example to the world.

¶ 17. (SBU) Deloitte's CEO asked Ambassador if he would be willing to meet with CEOs of Deloitte's top 20 clients, most of which are U.S. companies. Ambassador agreed.

WAYNE